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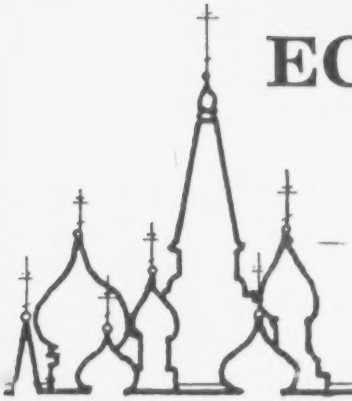

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XIV, No.12
August 15, 1990

ECONOMIC RESULTS FOR FIRST HALF 1990

(Million tons unless otherwise indicated)

Product	First Half 1990 Output	1990 as % of 1989
Electricity (bil. kw hrs)	872	100.4
Oil	291	96
Gas (mil. m^3)	409	103
Coal	362	94
Steel	79.2	98
Metal Cutting machine tools (1000 units)	11.8	99.5
Computer technology (million rubles)	4059	110
Tractors (1000 units)	263	95
Agricultural equipment (million rubles)	1834	95
Mineral Fertilizer	16.7	90
Pharmaceuticals (million rubles)	2001	107
Paper	3.1	98
Cement	69.3	98
Meat	6.1	97
Sausage products	2	100.7
Edible fish products	2.8	97
Butter	1.8	99
Cheese (1,000 tons)	454	100.2
Wholemilk products	17.7	102
Margarine products (1,000 tons)	817	101
Granulated sugar	3.7	102
Confectionary	2.7	103
Canned foods (bil. cans)	7.1	97
canned fruit/vegs	4.2	95
Nonalcoholic beverages (million dekaliters)	307	94

Product	First Half 1990 Output	1990 as % of 1989
Footwear (mil. pairs)	419	100.3
Television sets (million units)	5.2	105
Refrigerators/freezers (million units)	3.3	100.8
Radios (million units)	4.6	109
Tape recorders (million units)	3.1	110
VCRs (thousands)	183	320
Sewing machines (thousands)	855	112
Washing machines (million units)	3.8	118
Vacuum cleaners (million units)	2.8	111
Furniture (mil. rubles)	5.2	109
Motorcycles (thousands)	508	104
Cars (thousands)	631	105
Paper Goods (mil. rubles)	488	111
Household soap (thousand tons)	386	108
Toilet soap (thousand tons)	167	107

Livestock Herds

(Million Head as of July 1st)

	1989	1990
Cattle	95.7	93.2
Cows	28.6	28.2
Swine	59.2	57.2
Sheep and Goats	142.3	135.9
Chickens	792.9	775.6

More Dismal Figures for the First Six Months of 1990

As the economics newspaper, *Rabochaia Tribuna*, described it, "the revitalization of the economy did not occur. Instead the crisis in the national economy intensified."

During the first part of the year, industrial production fell by .7% while national income fell by 2% from the comparable period in 1989.

The Soviets have also released some information about specific industries. For example while natural gas output rose 3%, oil output declined 4% and coal production fell 6%. Electricity generation was constant. Steel production fell 2% and fertilizer production 10%.

As for consumer goods, meat production fell for the first six months as did the hatching of eggs. The delivery of vegetables to the state also fell. The Soviets also report a drop in the size of their herds. As the accompanying table indicates, the number of cattle fell 3%, cows by 1%, pigs by 3.5%, sheep and goats by 4.5% and chickens by 2%.

This is the first time in many years that all livestock herds are less than they were in the preceding period.

Adding to the bad news was the fact that housing construction fell 6%.

There are conflicting reports about the size of the deficit. There are some suggestions that the size of the deficit was 20 billion rubles or so. Other reports indicate that it was 60 billion rubles which would still be a drop from all of last year. However unofficial estimates suggest that the size of the budget deficit remains the same as it was last year, that is about 10 to 12% of the Soviet GNP.

The circulation of money increased by 9% during the first half of the year and the monetary income of the population rose by 12.9%. It was only supposed to have increased by 7.1%.

For the period as a whole, there were on average of 75,000 workers a day on strike. Other sources suggest, however, that the average number of workers on strike for June totalled 130,000 per day. While prices recorded on the official state stores rose only about 2%, the more meaningful price index on collective farm markets shows that prices rose 18%.

The crime rate rose 14.6% but there is some solace in the fact that that was less than the rate increased in 1988 which was 32%.

Another interesting figure is that as of July 1, 1990 there were 1,830 officially registered joint ventures. Even more interesting is the fact that as of July 1, 1990 more than 15,000 Soviet enterprises were authorized to engage in foreign economic activities. That more than anything else helps to explain why the foreign trade balance seems to be so unfavorable. The deterioration of the trade balance apparently continued into 1990. The Soviets report that while exports to the hard currency world fell 8.2%, imports from the hard currency countries rose by 13% which of course has increased the trade deficit by a significant amount. All in all it is not a very pretty picture and it goes a long way to suggest why morale is so bad and why the different republics seem to be taking affairs into their own hands.

Soviet Balance of Trade With Hard Currency Countries

The first sign that the Soviet Union is having economic problems is when there is a delay in the release of statistics. This has happened with the balance of trade. We have only just received the April issue of the journal, *Foreign Trade*, which publishes their foreign trade figures. Usually the journal comes out close to the month it is scheduled.

We now have the balance of trade figures for 1989 and they explain more than anything else can why the Soviet Union is not

paying its bills. For the first time in recent memory, the Soviet Union has a trade deficit with the West European countries and Japan. Usually because of the export of petroleum and natural gas, they have a surplus. However, Soviet imports rose by 3 billion rubles in 1989 from those countries over what they had been in 1988. In addition, Soviet imports from the grain producing countries, including the United States, rose by 1.3 billion rubles in 1989. When combined that leaves the Soviet Union with a trade deficit of about 4.5 billion rubles in its dealings with hard currency countries. In 1988 the deficit was 1.6 billion rubles. That meant there was almost a threefold increase in one year.

Exports from the Soviet Union did rise by about 1.5 billion rubles but that in no way was enough to compensate for the increase of imports that rose by 4.3 billion rubles. The dollar equivalent is hard to calculate because of the peculiar way the Soviets handle the rate of exchange, but it probably amounts to $7 to $8 billion.

We do know that oil exports in 1989 did drop about 12% to hard currency countries. Nonetheless the overall ruble income from exports rose. That may be due in part to an increase in exports of natural gas and other products. Nonetheless with a threefold increase in their trade deficit, the Soviets undoubtedly found themselves short of cash and that explains why they had trouble paying their bills.

Another reason for the big increase in imports is that the government has decentralized and allowed individual enterprises to increase imports. When the Chinese did that, they also ended up with a sharp increase in imports. It will be hard for the Soviets to bring the trade deficit into balance unless they reimpose control over the enterprises. Of course what is happening in the meantime is that many Western and Japanese firms have ceased shipping goods to the Soviet Union. For a time imports into the Soviet Union dropped not because of the cutback in orders but of a refusal to deliver signed contracts.

With the world embargo on purchases of oil from Iraq, the price of oil has increased sharply and that should help the Soviet Union with its export earnings. If the higher prices are sustained that should increase their earnings by about $5 to $6 billion a year.

Rubles to the Hard Currency Ruble

rubles to the hard-currency ruble	
November 3, 1989	15.2
January 21, 1990	17.5
February 21, 1990	21
April 5, 1990	23
May 10, 1990	27
May 22, 1990	35.1
July, 19, 1990	41.2

According to the latest auction, rubles for hard currency that was selling in Moscow July 19th, the ruble to hard currency ruble rate fell to 41.2 rubles to the hard currency ruble. That is another 15% fall. It means that the ruble today is worth one third of what is was worth as recently as November 1989.

The Soviets have announced that as of August 1, 1990 it is now legal for Soviet citizens to own and use foreign currency inside the USSR. No questions are to be asked about possession. This is important step forward to convertibility as is the decision to allow any Soviet enterprise the right to bid for foreign currency in auctions. The second regulation goes into effect on January 1, 1991.

The danger with such rules however is that they are likely to drive the ruble to a fraction of its present official value and even the black market value. They will also serve

to reduce the ruble overhang. Now that there is something to buy, everyone will spend his or her rubles buying *valuta* .

The Russian Research Center Announces the First Two Corporate Sponsor Sessions of the Year

To begin the new academic year, the Russian Research Center in cooperation with the Cambridge East-West Consulting Group will sponsor a one day conference on Monday, October 1, 1990 entitled "Opportunities for High-Technology in the Soviet Union and Eastern Europe." Invitations are still out to several speakers including some from the Soviet Union, but the preliminary program with confirmed speakers is included with this newsletter. After an initial look at the overall economic situation, we expect to have separate panel discussions on computers, telecommunications, aerospace, and biotechnology. In addition we will have representatives from the government including the Under-Secretary for Export Administration at the Department of Commerce and a senior representative from the Department of State.

The Soviets have considerable interest despite their hard currency shortages in obtaining high technology and the US government recently has been liberalizing its export policies although for the most part most of the liberalization has effected Eastern Europe.

As usual our conference will take place at the Harvard Faculty Club at 20 Quincy in Harvard Square, Cambridge.

An enrollment form is included with this newsletter.

We also plan to hold a more general look at the Soviet economy and the political situation on October 22nd. That session is primarily intended for journalists and is entitled "The Post Cold War Era: What Difference Does it Make?" This will include an examination of foreign policy, arms control, the economy, internal developments and a discussion of working conditions in the Soviet Union for journalists. In addition we have also extended invitations to the mayor of Odessa and the deputy mayor of Moscow.

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